

Bell Atlantic Network Services, Inc.
1133 Twentieth Street, N.W.
Suite 800
Washington, DC 20036
202 392-1187

Gerald Asch
Director/FCC Relations

DOCKET FILE COPY ORIGINAL
RECEIVED

JUN 19 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

June 19, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street NW - Room 222
Washington, D.C. 20554

Re: Ex Parte Meeting
CC Docket No. 96-45, Federal-State Joint Board on
Universal Service

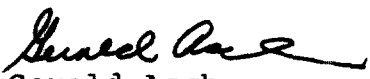
Dear Mr. Caton:

On June 14, 1996, Edward D. Young, III, Vice President - External Affairs and Associate General Counsel, delivered a Universal Service presentation to the Strategic Research Institute's 1996 Conference on Cable/Telco Video Franchising. A copy of Mr. Young's presentation was provided to the members of Universal Service Joint Board: Chairman Hundt; Commissioner Chong; Commissioner Ness; Ms. S. Nelson, Chairman, Washington Utilities and Transportation Commission; Ms. L. Schoenfelder, Commissioner, South Dakota Public Utilities Commission; Ms. J. Johnson, Commissioner, Florida Public Service Commission; Mr. K. McClure, Vice Chairman, Missouri Public Service Commission; and, Ms. M. Hogerty, Office of the Public Counsel, Missouri.

Copies of Mr. Young's presentation were also provided to: Commissioner Quello; Mr. J. Nakahata of Chairman Hundt's office; Mr. J. Casserly of Commissioner Ness's office; Mr. D. Gonzalez of Commissioner Chong's office; Ms. L. Belvin of Commissioner Quello's office; Ms. R. Keeney, Chief of the Common Carrier Bureau; Mr. R. Pepper, Chief, Office of Plans and Policy; Mr. J. Farrell, Chief Economist; Mr. E. Maxwell of the Office of Plans and Policy; Mr. G. Rosston, Acting Chief Economist of the Common Carrier Bureau; and, Ms. K. Brinkmann, Assistant Bureau Chief of the Wireless Telecommunications Bureau.

An original and a copy of this ex parte, which includes a copy of Mr. Young's presentation, are being filed in the office of the Secretary on June 19, 1996. Please include it in the public record of this proceeding.

Respectfully submitted,


Gerald Asch
Director - FCC Relations

No. of Copies rec'd 071
List ABCDE

RECEIVED
JUN 19 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

REMARKS BY

EDWARD D. YOUNG, III
VICE PRESIDENT-EXTERNAL AFFAIRS AND
ASSOCIATE GENERAL COUNSEL
BELL ATLANTIC

AT

STRATEGIC RESEARCH INSTITUTE
1996 FORUM ON CABLE/TELCO VIDEO FRANCHISING
WASHINGTON HILTON
JUNE 14, 1996

Universal Service and the Telecom Act of 1996:

Everything Old is New Again

Edward D. Young, III
Vice President-External Affairs, Bell Atlantic

June 14, 1996

Thank you for inviting me to be here today. I've been asked to talk about universal service and what it will mean under the 1996 Telecommunications Act. After spending all yesterday hearing about things like open video systems, franchising requirements, and rate tiers, you probably can use a break. So rather than bore you with more regulatory issues, I'm going to tell you a story.

Imagine that it is the early 1800's. You and your friend Bobby Fulton have just graduated from school and are ready to make your fortune in the world. Each of you has \$1000. You decide that you are going west to prospect for gold. Bobby decides that he is going to stay on the east coast and use his money to develop some new concept he calls steam locomotion.

You find a promising area and begin to excavate it. Instead of finding gold or silver, however, you strike an artesian well and water starts gushing everywhere. At first you are depressed, thinking that your work is in vain. You quickly realize that you have stumbled on a wonderful opportunity. There is a nearby town and water is in very short supply. You decide to go into business supplying the town with much needed water. Since you miss the east coast, you decide to name your business Well Atlantic.

(Ok, I guess you're starting to realize that maybe you will hear about regulation after all).

You spend most of your \$1,000 on a horse, a buggy, and bottles in which to carry the water. The local saloon is also thrilled that you have access to water and ask if you can make it bubbly so that they can sell sarsaparilla. You decide to charge 25¢ for a gallon of water and 50¢ for a gallon of sarsaparilla. You are excited. (Bobby Fulton, eat your heart out!)

After two weeks in business, the town council comes to you. They tell you that they are grateful for the service you are providing to the town but they have a few concerns and requests.

First, the price of water is too high. "Too high?", you say. "What do you have in mind?"

They tell you that they want you to charge 10¢ for water. But to make it up to you, they will let you charge \$1.00 a gallon for sarsaparilla. That way, they say, you will make up in sarsaparilla what you are losing on carrying basic water.

Next, they tell you that they are concerned about the quality of your water. They want you to test it regularly and use a more sanitary transport system. They tell you about a big outfit back east that will sell you testing equipment and design your transport system. The name of the company is Aquatic Testing & Transport. You decide to call them AT&T for short.

Finally, they drop the bombshell. "You know that on the other side of the mountain in the hollow there are a lot of poor folks who could use your water. How about selling it to them for 5¢ a gallon. And while you're at it, there is a widow lady in town who also could use a break. If you can see your way clear to do that, we'll give you an exclusive franchise on water and sarsaparilla."

You tell them that it will cost a lot to go over the mountain and that you have to consult your accountant. You rush home to your spouse, who keeps your books. Your spouse estimates that it will cost \$5,000 to upgrade the infrastructure to meet the new service quality standards. It will take you 30 years to recover the cost of your investment.

When you mention the 30 years to the town council, they are perplexed. You're making money on the sarsaparilla, the improvements will easily last 30 years (look at how long the Roman aqueducts lasted), and besides where were you going anyway? Given the investment you have already sunk into the enterprise, you decide to make the improvements and institute a lower, mountain rate.

For a while, things are fine. The town flourishes and more people start to settle there. You are asked to put in a direct pipeline from the well to the town and to the hollow on the other side of the mountain. AT&T is only too happy to design and install it for you. The town lets you raise the price of sarsaparilla, but it will still be years before you recover the new investment.

Your spouse tells you that Bobby Fulton sent you a daguerreotype that shows him standing in front of a steamboat called the Clermont. His note says, "My ship has

come in, how about yours?" You mumble to your spouse something about 30 years and go back to work.

Since the mountain now has running water things pick up there. A Norwegian named Robert the Redford buys the mountain and asks you for water service at mountain rates. You appeal to the town council. The council, eager to promote industry, tells you to provide service at mountain rates. Once the service is installed, Redford opens a ski resort.

The town also asks you to provide free water hook-ups to all the poor people in town. To pay for it, you raise the price of sarsaparilla. The town asks you to give the school free access to water. Also, they tell you that the kids need to be exposed to a broad expanse of water to play in--let's call it a swimming pool. "Would you provide that too?"

"In for a penny, in for a pound," you think. You raise the price of sarsaparilla to \$2.00 a gallon.

Your father used to say that just when you think you have things figured out, everything changes. Truer words were never spoken. The town is outraged at having to pay \$2.00 for sarsaparilla. Sarsaparilla in the neighboring town costs 50¢ a gallon. Also, because of a new invention called the steam engine, water can now be pumped great distances economically.

The town decides it is time for a change. They tell you that they are going to revoke your exclusive franchise. It seems that Aquatic Testing & Transport wants to be in the local water and sarsaparilla business. They have told the town that it can provide better service at a lower price. AT&T says that while in it can pump in water from long

distance, it cannot get into the sarsaparilla business right away and would like to resell Well Atlantic's sarsaparilla. AT&T argues that since Well Atlantic's cost of providing sarsaparilla is 25¢, that is what AT&T is willing to pay for it.

You are devastated. "What about my investment...You promised me that I could recover it.... What about my 30 years?.... How can I continue to charge \$2.00 for sarsaparilla when my competitor gets it for 25¢?"

The town says it wants to be fair. It asks you to comment on the following ordinance:

1. Anyone can be in the water business.
2. Well Atlantic must make its facilities available to its competitors at cost.
3. Anyone in the water business must contribute a percentage of revenues, to be determined by the town, that will go to help needy people and schools get water.
4. The town, in the next 18 months, will decide who is in need of water. Because kids are in need of a lot of water, the town will determine how much water they need and who will pay for it.

At the same time that you receive a copy of the proposed ordinance, you also receive the following letter from Bobby Fulton:

I am writing to ask your advice on a matter of utmost urgency.

The Hudson River Authority is quite taken with my steamship. They want to put it into regular service on the Hudson. They have asked me to propose a fee structure that takes into account the fact that not all people can afford to pay for steamship service. I know that you have experience in this area. Please give me your best counsel.

Eager to your friend, you pen the following letter:

Dear Bobby,

Your letter comes at just the right time. I am in the midst of similar issues. Here is my advice:

1. Any subsidies should be narrowly targeted and not broadly administered. I have learned that not all people on the mountain are poor and not all widows are destitute. Customers who choose to live in rural retreats for the well-to-do should not have their service underwritten by ordinary working people living paycheck to paycheck.
2. Keep your subsidies as small as possible. Once they have grown large it will be politically impossible to reduce them later. It is better to start small and adjust them as needed.
3. Make sure that your subsidies are competitively neutral. By that I mean that all service providers should contribute to the subsidies equitably. Otherwise, you will not be able to compete or recover past costs that you legitimately incurred to provide service in the past.
4. Recognize that all services and technologies will continue to evolve. As a result, what people consider to be basic service today may not be enough tomorrow. People expect more from their service providers.
5. When it comes to schools, the educators are in the best position to know what they need. The best system is to decide on an appropriate sum of subsidy to collect from the service providers and then let the experts decide how to use it.

I hope this has been of some use to you. Good luck to you.

P.S. I am glad you dropped that submarine idea. I knew it wouldn't work.

You then write the following letter to the town council:

My dear friends:

Well Atlantic has enjoyed a long and mutually rewarding relationship with the town. We have been good corporate citizens in every since of the word. We were there when you needed water and we provided jobs and industry that spurred economic growth.

Well Atlantic understands that as technologies change so to must the services, as well as those who provide them. It is also clear, however, that we need each other.

Do not require us to unbundle our network and make our facilities available to our competitors without making sure that we can recover the common costs of construction and maintenance of our ubiquitous network. Also, we need the ability to price our competitive services to the market. Without this ability, we will be left with only the mountain customers while AT&T serves the town.

So as the incumbent carrier, we have a keen interest in ensuring that your universal service funding mechanism is well thought out and properly implemented. We are eager to work with you to ensure that this new marketplace benefits the customers.

When you are done writing, you mail both letters. Although you feel that you have made your case, you begin to wonder if you should hedge your business by

getting into other lines of business. You sit back and wonder whether that fellow you met the other day --Alex Bell-- is looking for a partner.

Thank you again for inviting me to speak and I will be happy to answer any questions you might have.